AlHammadi Co for Dev & Investment

4Q2018 Results Review

11 March 2019

Pharma Making Positive Impact

Hammadi announced slightly better 4Q18 revenues but weaker than expected EPS of SAR 0.15 (-42% Y/Y), missing our SAR 0.17 forecast. Sector challenges are reflected in 12M share price underperformance relative to the market. While the headwinds are unlikely to abate anytime soon, we take comfort from Hammadi's pause in capacity addition, allowing time for absorption. Personnel costs will likely stabilize in 2H19, creating scope for margin improvement. We see M&A activity as potential catalyst on the heels of positive contribution from pharma acquisition in 2018. Reiterate Buy and SAR 34 target price, representing 17.8x 2020E EV/EBITDA.

Revenues slightly ahead of estimate

Revenues for the quarter were slightly ahead of estimate at SAR 228 mln (+21% Y/Y). Breakdown not provided in preliminary results, however we projected pharma comprising c. 30%. Through 9M18, medical care segment was under pressure (-2.2% Y/Y) despite addition of Nuzha plus stabilization at Sweidi and Olaya. In our view patient visits were subdued, reflecting broader sector trend. Full-year 2018 revenues gained +26% Y/Y to SAR 894 mln with acquisition of Medical Support Services making meaningful contribution.

Gross margin under pressure

Gross margin tightened to 26% from 34% in 4Q17, but remained inline with prior quarter. Margins in medical care segment are under pressure (28% through 9M18 vs 35% in year ago period) on higher personnel costs from Nuzha and worker fees. We estimate c. 75% of costs are fixed and sensitive to lower patient traffic and service price revisions. In our prior conversation, management indicated that personnel ramp-up will persist through May, leading us to expect modest margin improvement in 2H19. On the other hand, pharma margins improved nearly 400 bps to 28%.

Expenses outpacing revenues

Preliminary commentary cited increase of SAR 35 mln in depreciation and SAR 14 mln in financing costs in 2018, primarily attributed to Nuzha. Opex was slightly better than expected at SAR 28 mln (initial estimate). Consequently, earnings miss resulted from weaker gross profit. Net income of SAR 18 mln (-42% Y/Y and -17% Q/Q) fell short of our SAR 21 mln forecast.

Pharma acquisitions could help counter medical care weakness

So far three healthcare names have reported in our coverage – all falling short of estimate. We believe personnel expenses were backloaded to 4Q, leading to deeper than expected earnings contraction. With persistent sector headwinds, we take comfort from Hammadi's pause in capacity expansion. Further, we believe M&A driven growth makes sense, provided distressed assets can be consolidated and optimized. Management remains open to smaller acquisitions in the pharma space, which in our view will help mitigate broader weakness.

SAR mln	4Q18	4Q18E	4Q17	*Y/Y Chg*	3Q18	*Q/Q Chg*	*Variance*	Consensus
Sales	228	225	189	*21%*	250	*-9%*	*1%*	245
Gross profit	60	67	65	*-8%*	65	*-8%*	*-11%*	
Gross margin	*26%*	*30%*	*34%*		*26%*			
Operating profit	32	36	40	*-20%*	36	*-11%*	*-12%*	34
Operating margin	*14%*	*16%*	*21%*		*14%*			
Net income	18	21	31	*-42%*	21	*-17%*	*-14%*	24
Net margin	*8%*	*9%*	*16%*		*9%*			*10%*
EPS (SAR)	0.15	0.17	0.26	*-42%*	0.18	*-17%*	*-14%*	0.20

SAR 34 — 12-Month Target price

Buy — Recommendation

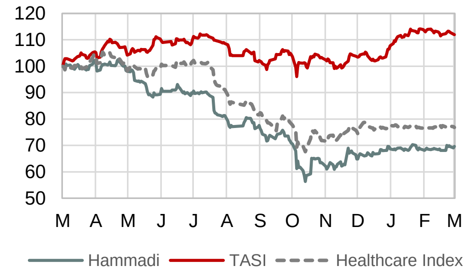
Stock Details		
Last Close Price	SAR	25.55
Upside to target	%	33.1
Market Capitalization	SAR mln	3,066
Shares Outstanding	mln	120
52-Week High	SAR	38.50
52-Week Low	SAR	20.50
Price Change (YTD)	%	1.8
3-Mth ADTV	thd	275
EBITDA 2019E	SAR mln	260
Reuters / Bloomberg	4007.SE	ALHAMMAD AB

SAR mln	2018	2019E	2020E
Revenues	894	1,035	1,137
Gross Margin	*27%*	*28%*	*28%*
EBIT	138	167	181
Operating Margin	*15%*	*16%*	*16%*
Net Income	90	110	125
Net Margin	*10%*	*11%*	*11%*
EPS (SAR)	0.75	0.92	1.04
DPS (SAR)	-	0.75	1.00

Price Multiples

	2018	2019E	2020E
P / E	34.1x	27.9x	24.6x
EV / EBITDA	17.2x	15.0x	14.1x
P / S	3.4x	3.0x	2.7x
P / B	2.1x	2.0x	2.0x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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Rating Framework

BUY
Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD
Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL
Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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